

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69772; File No. SR-OCC-2013-04)

June 17 , 2013

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change to Change the Expiration Date For Most Option Contracts to the Third Friday of the Expiration Month Instead of the Saturday Following the Third Friday

I. Introduction

On April 17, 2013 The Options Clearing Corporation (“OCC”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change SR-OCC-2013-04 pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder.² The proposed rule change was published for comment in the Federal Register on May 6, 2013.³ The Commission received one comment in response to the proposed rule change, in which the commenter expressed support for the change.⁴ This order approves the proposed rule change.⁵

II. Description of the Proposed Rule Change

Proposal

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Securities Exchange Act Release No. 34-69480 (April 30, 2013), 78 FR 26413 (May 6, 2013).

⁴ See Comment from John V. Bruzzese dated May 3, 2013 (stating that the change would be “beneficial for [the] option expiration process”) (<http://sec.gov/comments/sr-occ-2013-04/occ201304-1.htm>).

⁵ OCC also filed the proposed rule change as an advance notice under Section 806(e)(1) of Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) entitled the Payment, Clearing, and Settlement Supervision Act of 2010 (“Clearing Supervision Act”). 12 U.S.C. 5465(e)(1); SR-OCC-2013-802.

The primary purpose of the proposed rule change is to allow OCC to change the expiration date for most option contracts to the third Friday of the expiration month instead of the Saturday following the third Friday. Most option contracts (“Standard Expiration Contracts”) currently expire at the “expiration time” (11:59 pm Eastern Time) on the Saturday following the third Friday of the specified expiration month (“Expiration Date”).⁶

The proposed change applies only to series of Standard Expiration Contracts opened for trading after the effective date of this proposed rule change and having Expiration Dates later than February 1, 2015. Option contracts having non-standard expiration dates (“Non-standard Expiration Contracts”) are unaffected by this proposed rule change.⁷

In order to provide a smooth transition to the Friday expiration, OCC intends to, beginning June 21, 2013, move the expiration exercise procedures to Friday for all Standard Expiration Contracts even though the contracts would continue to expire on Saturday.⁸ After February 1, 2015, virtually all Standard Expiration Contracts will expire on Friday. According to OCC, the only Standard Expiration Contracts that will expire on a Saturday after February 1, 2015 are certain options that were listed prior to the effectiveness of this rule change,⁹ and a

⁶ See the definition of “expiration time” in Article I of OCC’s By-Laws. According to OCC, the expiration time would continue to be 11:59 pm Eastern Time on the Expiration date.

⁷ Examples of options with Non-standard Expiration Contracts include flex options and quarterly, monthly, and weekly options where the expiration exercise processing for such options presently occurs on a weekday.

⁸ For contracts having a Saturday expiration date, exercise requests received after Friday expiration processing is complete but before the Saturday contract expiration time will continue to be processed so long as they are submitted in accordance with OCC’s procedures governing such requests.

⁹ According to OCC, certain option contracts have already been listed on exchanges with

limited number of options that may be listed prior to necessary systems changes of the options exchanges, which are expected to be completed in August 2013.¹⁰ After the transition period and the expiration of all existing Saturday-expiring options, expiration processing should be a single operational process and should run on Friday night for all Standard Expiration Contracts.

In connection with moving from Saturday to Friday night processing and expiration, OCC reviewed other aspects of its business to confirm that there would be no unintended consequences, and concluded that there would be none. For example, OCC believes the proposed changes do not affect OCC's liquidity forecasting procedures, nor do they impact OCC's liquidity needs, since OCC's liquidity forecasts and liquidity needs are driven by settlement obligations, which occur on the same day (T+3) irrespective of the move to Friday night processing and expiration dates.

According to OCC, industry groups, clearing members, and options exchanges have been active participants in planning for the transition to the Friday expiration. OCC has obtained assurances from all options industry participants that they will be ready to move to Friday night expiration processing by June 2013.

expiration dates as distant as December 2016. Such options have Saturday expiration dates and OCC cannot change the terms of existing option contracts. In addition, clearing members have expressed a clear preference not to have open interest in any particular month with different expiration dates. Therefore, OCC will designate certain expiration dates as "grandfathered," and any option contract that is listed, or may be listed in the future, that expires on a grandfathered date will have a Saturday expiration date even if such expiration date is after February 1, 2015. After OCC designates an expiration date as grandfathered, the exchanges have agreed not to permit the listing of, and OCC will not accept for clearance, any newly listed standard expiration option contract with a Friday expiration in the applicable month.

¹⁰ The exchanges have agreed that once these systems changes are made they will not open for trading any new series of option contracts with Saturday expiration dates falling after February 1, 2015.

Rule Changes

In order to implement the change to Friday expiration processing and eventual transition to Friday expiration for all Standard Expiration Contracts, OCC is amending the definition of “expiration date” in Article I and certain other articles of the By-Laws. As amended, the applicability of the definition is no longer limited to stock options, and the definition of “expiration date” in certain articles of the By-Laws therefore is deleted in reliance on the Article I definition. OCC is also amending Rule 805, and all rules supplementing or replacing Rule 805, to allow for Friday expiration processing during the transition to Friday expiration. OCC is also amending section 18 of Article VI of the By-Laws to align procedures for delays in producing Expiration Exercise Reports and submission of exercise instructions with the amended expiration exercise procedures in Rule 805. OCC is amending Rule 801 to modify the prohibition against exercising an American-style option contract on the business day prior to its expiration date, because this prohibition is necessary only for options expiring on a Saturday and to remove clearing members’ ability to revoke or modify exercise notices in order to accommodate the compressed Friday expiration processing expiration schedule.

Finally, OCC is amending Rules 801 and 805 to allow certain determinations to be made by high-level officers of OCC, rather than the Board of Directors, in order to provide OCC with greater operational flexibility in processing exercise requests received after Friday expiration processing is complete but before the Saturday contract expiration time, and to replace various references to the expiration date of options with reference to the procedures of Rule 805.

Under the proposed change, OCC is preserving the ability of the options exchanges to designate (or, in the case of flexibly structured options, permit clearing members to designate) non-standard expiration dates for options, or classes or series of options, so long as the

designated expiration date is not a date OCC has specified as ineligible to be an expiration date.

III. Discussion

Section 19(b)(2)(C) of the Act¹¹ directs the Commission to approve a proposed rule change of a self-regulatory organization if it finds that such proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to such organization. Section 17A(b)(3)(F) of the Act¹² requires, among other things, that the rules of a clearing agency are designed to promote the prompt and accurate clearance and settlement of securities transactions and foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions.

By changing the expiration date for most Standard Expiration Contracts to the third Friday of the expiration month and moving the expiration exercise procedures to Friday for all Standard Expiration Contracts, the rule change should help to promote the prompt and accurate clearance and settlement of securities transactions as well as foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions. As mentioned above, the rule change will allow OCC to streamline the expiration process among Standard Expiration, Non-standard Expiration Contracts, quarterly options, and weekly options and also align expiration processing schedules for United States markets with expiration processing schedules for European markets.

¹¹ 15 U.S.C. 78s(b)(2)(C).

¹² 15 U.S.C. 78q-1(b)(3)(F).

IV. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act¹³ and the rules and regulations thereunder.

¹³ 15 U.S.C. 78q-1.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁴ that the proposed rule change (File No. SR-OCC-2013-04) be and hereby is APPROVED.¹⁵ However, the proposed changes that are the subject of the proposed rule change shall not take effect until all regulatory actions required with respect to the proposed changes are completed.¹⁶

For the Commission by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Kevin M. O'Neill
Deputy Secretary

¹⁴ 15 U.S.C. 78s(b)(2).

¹⁵ In approving the proposed rule change, the Commission considered the proposal's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁶ OCC also filed the proposed rule change as an advance notice under Section 806(e)(1) of the Clearing Supervision Act. 12 U.S.C. 5465(e)(1); SR-OCC-2013-802. Proposed changes filed under the Clearing Supervision Act may be implemented pursuant to Section 806(e)(1)(G) of the Clearing Supervision Act if the Commission does not object to the proposed change within 60 days of the later of (i) the date that the proposed change was filed with the Commission or (ii) the date that any additional information requested by the Commission is received. 12 U.S.C. 5465(e)(1)(G).

¹⁷ 17 CFR 200.30-3(a)(12).